# Review of Agricultural Trade Negotiations

**Testimony**

**of the**

**National Cattlemen's Beef Association**

**to the**

**United States House of Representatives**
**Committee on Agriculture**

**Presented by**

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Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Chairman Goodlatte and members of the Committee: the National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our views on the status of agricultural trade negotiations. I am Jan Lyons, a beef producer from Kansas where I manage along with three generations of my family our ranch in the Flint Hills tallgrass prairie south of Manhattan, Kansas. I am privileged to serve as President of the NCBA this year and represent over 26,000 individual members and over 250,000 members through our state and breed affiliates. Today I would like to focus on why our industry believes that the WTO negotiations are so critical to the future growth of our industry and why trade is the key to all U.S. beef producers' future success.

Trade liberalization has been a key to economic growth for centuries. This is why NCBA strongly supports trade initiatives that reduce barriers to access for U.S. beef. NCBA and many other U.S. agricultural organizations worked tirelessly for Trade Promotion Authority (TPA) and support the Administration's pro-trade agenda. We support this agenda because it is the right thing to do for U.S. agriculture and for the country and our members firmly believe it provides the greatest future opportunity for U.S. beef producers' profitability.

NCBA's members believe that the greatest trade liberalizing benefits to our industry can be obtained via the multilateral World Trade Organization (WTO) negotiating process rather than a string of bilateral agreements. NCBA's litmus test regarding the success or failure of these negotiations is a significant reduction in Japan's 50 percent bound and 38.5 percent applied tariff on beef imports, and South Korea's 40 percent bound and 30 percent applied tariff on beef imports. The inability to reduce these tariffs constitutes a failure in these negotiations in the eyes of U.S. beef producers.

Since we do not believe bilateral Free Trade Agreement (FTA) negotiations with Japan or South Korea will be launched in the near future, it is our fundamental belief that the WTO is the only mechanism capable of generating the political force necessary to move the agricultural trade liberalization process forward. Without forceful U.S. leadership in this multilateral context, U.S. beef producers will undoubtedly suffer under the market distorting forces of mercantilism and protectionism.

**Trade Benefits Beef Producers**

Historically, the U.S. has been the world's largest beef importer and second largest beef exporter. In 2003, the U.S. imported $2.62 billion of beef and variety meats and exported a record $3.86 billion in beef and beef variety meats. Due to the unique position of our industry as importer and exporter, NCBA must consider balance, equity, and fairness of proposed trade initiatives to assure that any agreement provides net increase in access for U.S. beef.

The U.S. beef market is a perfect example of what Adam Smith envisioned when he explained the failures of mercantilism and the virtues of an open trading system back in 1776. He explained that imports allow a country to concentrate on its strengths and the export of products where it has a comparative advantage and that all countries benefit when participating in an open trading environment. An abundant corn supply provides the U.S. beef industry with a comparative advantage in the exportation of high quality grain-fed beef to the 96 percent of our potential customers living outside the U.S.

In 2003, the average per pound value of U.S. beef exports was $1.66 while the average per pound value of our imports was $1.21. Overall, the U.S. enjoyed a record $2.2 billion beef and beef product trade surplus last year. Such success in the export market is nearly unprecedented in any agriculture commodity when one considers that the U.S. beef industry also experienced record domestic prices in 2003. This highly unusual feat was accomplished because of a reduction in the value of the U.S. dollar, which meant that the price of U.S. beef in Tokyo last year didn't appreciate when valued in Japanese Yen.

**Current Status of the U.S. Beef Industry**

As a result of a single case of Bovine Spongiform Encephalopathy (BSE) on December 23, 2003, U.S. beef producers now have a greater appreciation of the value of our export markets. Earlier this month, the entire industry returned to a point of profitability for the first time since December 23rd, yet it has been the tremendous resilience of U.S. consumer confidence and demand that has seen us through this crisis in our industry.

Despite the fact that about $5/cwt of the $15/cwt value of our export markets has been returned via a harmonization of regulations related to BSE in North America, feeder cattle prices during January-April of this year set records and were 19 percent better than during the same period in 2003. This was achieved via a 9.5 percent reduction in beef production which essentially offset the 10 percent of U.S. production that historically has been exported. This lower level of production is associated with the long-term cattle cycle combined with persistent drought in the western half of the U.S. that has made it extremely difficult for U.S. beef producers to react to economic signals and begin herd expansion.

As a result, fed cattle prices since the first of the year (through April) have averaged a record $82.36/cwt or $4/cwt (5 percent) better than a year ago. During this same time period, per capita net beef supplies on a retail weighted basis (21.03 pounds) were identical to 2003 and first quarter beef demand (a function of price and quantity) was up an astonishing 6.2 percent.

**The Doha Round (WTO)**

Increased market access via tariff reduction is the core mechanism by which U.S. beef producers can better their position in the global marketplace. Unfortunately, we are not yet far enough along in the negotiating process to really evaluate where we stand. Ultimately, for our industry, it depends upon the numbers (percentages of tariff reductions) in the bracketed text of the agreement. U.S. beef producers receive no domestic supports nor export subsidies.

At face value, the fact that Organization for Economic Cooperation and Development (OECD) figures show the producer support estimate (PSE's), which are a measurement of the level of government support to an agricultural commodity sector, for beef farmers globally has actually RISEN from 61 percent in 1996 to 79 percent in 2001 demonstrates that global reform in these two areas is both critically needed and at the same time an uphill battle. Of course, the EU is far and away the main culprit behind these OECD figures and still accounts for 7.5 percent of world beef trade as a result of such trade distorting policies. That quantity is the best measure of what other global beef exporters stand to gain if export subsidies on EU beef are eliminated and domestic beef supports are reduced. While a considerable quantity of this trade would undoubtedly be captured by competitors such as Brazil, the resultant realignment of global beef trading patterns would be of significant benefit to U.S. beef producers.

Beyond reform in the EU's Common Agricultural Policy, however, WTO members, and particularly developing countries must get beyond this ironic contradiction that trade liberalization is somehow good for developed countries' agricultural support mechanisms but is somehow not appropriate policy for the developing world.

**The North American FTA (NAFTA)**

For U.S. beef producers, NAFTA has been a tremendous success story. Mexico's 103 million citizens have experienced a 33 percent increase in per capita income over the last five years. This increase in disposable income has led directly to increased beef consumption in Mexico. While the country's domestic beef production has struggled to expand and meet this demand in recent years due to drought, U.S. beef and variety meat exports to Mexico have grown. From an inconsistent market of about 100,000 mt and $200 million prior to NAFTA, Mexico became our most significant market in terms of tonnage at 350,000 mt worth $854 million in 2002.

This is a mutually beneficial trading relationship as the U.S. also imports around one million head of Mexican feeder cattle each year that have an approximate average value of around $400 million. In fact, today's integrated North American cattle market now looks very much like what was envisioned a decade ago by NAFTA proponents with consumer-driven economic drivers dictating the future direction of this industry.

Although the tariff on all North American beef trade has been zero since January 1, 1994, Mexico alleged in mid-1997 that beef, beef variety meats, and cattle entering Mexico were being dumped. On April 28, 2000, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued its final decision on the antidumping case against exporters of U.S. beef and beef variety meats by imposing a complex set of specific duties on most beef carcasses and cuts. Although we have won a NAFTA panel, these beef duties, which serve to lock some U.S. export interests out of the Mexican market even though they may not have even existed at the time these trade restrictions were put in place, recently passed the four year anniversary mark.

The 83-page NAFTA panel decision sends this case back to the Economic Ministry of the Mexican government and orders it to comply with the panel's findings and inform the panel of its compliance within three months of March 16, 2004.

NCBA's understanding of the panel's decision indicates that:

1. The "injury" decision to impose tariffs on U.S. beef exports to Mexico was found to be flawed by the panel.
2. Mexico's decision to charge a residual duty was deemed illegal by the panel.
3. Mexico's decision to require "age certificates" was also declared illegal.

Under NAFTA's dispute settlement process, the panel's findings mean that Mexico's Ministry of Economy must now reconsider its initial decision. Mexico can come back with a new tariff regime after consideration of the panel's findings, but if the panel rebuffs this new regime, the case would be terminated and the tariffs would be declared illegal. Also, some of the panel's findings may require that the U.S. seek resolution through the WTO dispute settlement process in order to completely resolve this situation. This case illustrates the need to both lower foreign tariffs and ensure that they are not replaced with other barriers. We ask Congress to continue to watch this situation closely and to encourage a swift resolution.

**The Free Trade Area of the Americas (FTAA)**

NCBA will only support bilateral or regional initiatives that are conducted on a parallel track with multilateral WTO negotiations and result in a net increase in U.S. beef exports. We note that both the Doha development agenda and the FTAA are slated to be concluded by 2005, meaning that at this time both negotiations are proceeding on a parallel track.

An FTAA that does not address actions such as Brazil's currency devaluations and credit subsidies to its agricultural sectors is one that NCBA would oppose. In our view, it is disingenuous for a country to aggressively practice "competitive devaluation" that directly benefits its agricultural sector while pursuing a WTO case against another country's agricultural policies. This issue is of tremendous concern to our industry, especially when such unsustainable macroeconomic practices trigger inflation and government deficits which are ultimately being offset by loans from entities such as the International Monetary Fund (IMF).

During January-April 2004, Brazilian beef exports have increased 55 percent to $666.9 million on a 20 percent increase in shipments. The reason cited was a weaker Real against the U.S. Dollar that has helped Brazilian beef become more competitive despite a 176 percent EU tariff on Brazilian beef.

In addition, any trade agreement needs to include a commitment to improve cooperation to eradicate foreign animal diseases. This is of particular importance due to the widespread occurrence of Foot and Mouth Disease in South America.

**U.S.-Chile FTA**

The U.S.-Chile FTA was a ground-breaking agreement that should serve as a starting point for future FTAs. There are three issues specific to beef that were included in the agreement in addition to the over-arching issue of herd health. They are:

Access Issues: The agreement allows for a four-year gradual duty-free access for U.S. beef into the Chilean market. The following products are included: fresh/chilled and frozen bovine carcasses, bone-in and boneless. The quantities shall enter Chile on a first come first serve basis. Likewise, imports of Chilean beef can enter the U.S. according to this same quota system, having unlimited access after four years. The quantities will also enter the U.S. on a first come first serve basis.

| Year | Quantity (Metric Tons) |
|---|---|
| 1 | 1,000 |
| 2 | 1,100 |
| 3 | 1,210 |
| 4 | unlimited |

SPS/Inspection Equivalency: NCBA strongly supports system-wide approval of inspection systems. Any bilateral, regional, or multilateral trade agreements must codify system-wide acceptance of the U.S. meat inspection system. On June 3, 2003, The Government of Chile announced that it recognized the equivalency of the U.S. meat inspection system effective immediately. This means that products from any federally inspected plant are eligible to export meat to Chile. The agreement was signed on June 6, 2003.

Grading Requirements**:** Prior to the FTA, Chile required that all beef sold through commercial channels carry a Chilean grade. U.S. and Chilean grades were harmonized so that U.S. graded beef can be marketed as equivalent to Chilean grades. This issue was resolved in the agreement with a comparison of Chilean Beef Norms and USDA Beef Quality Grades in Article 3.17.

**U.S.-Australia FTA**

Throughout the Australia FTA negotiating process, the assumption was made that there will be a new WTO Agreement within the next 10 years that will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef. It is also anticipated that any new WTO agreement would include an expansion in the size of tariff-rate quotas (TRQ) around the world including the U.S. beef TRQ. (The WTO draft Harbinson text says that all TRQs would be expanded to 10 percent of consumption, which would make the U.S. beef import TRQ roughly 1,000,000 tons versus the current 378,214 tons—subject to negotiation.)

NCBA's primary objective in these negotiations was to prevent any potential negative impact on U.S. beef producers caused by this FTA before we would have an opportunity to increase our ability to export beef via the WTO trade liberalization process. The expectation being that once this reduction in beef tariffs globally was in place, Australia would not have enough production to meet this global demand and still annually fill its U.S. quota of which it has accomplished on only one occasion.

Current five-year industry estimates all concur in projecting a 1-2 percent annual growth in the demand for the food service ground beef product that is a blend of U.S. trimmings with Australian and New Zealand beef. If these estimates hold over the next decade, the size of Australia's TRQ should grow commensurate with the marketplace's demand for this product resulting in no net negative price effect on live U.S. utility cow prices during the next 10 years as a result of this FTA.

Overall, this agreement is unique in that significant market access (above expected growth in demand) is back-loaded until year 15 of the agreement. The inclusion of a transitional quantity-based safeguard, and the permanent price-based safeguard at the end of the transition period, are critical components of this agreement.

The world beef market should benefit, rather than suffer, from this permanent, post-transitional price-based safeguard or "safety-net" mechanism that essentially provides a type of braking (not blocking) mechanism in the event of a U.S. or Australian beef market meltdown. While such an event seemed unlikely before December 23, 2003, we now know that such a provision is actually sensible trade policy given the quantity of trade involved.

**U.S.-Central American FTA / Dominican Republic FTA**

One of the strongest aspects of the CAFTA agreement is the recognition of the fact that the vast majority of our exports are a premium grain-fed product that will not compete price-wise with Central American grass fed beef. The CAFTA agreement's immediate duty-free access for U.S. prime and choice beef (defined as "high quality") is significant from NCBA's perspective. We believe that the current and future demand for this product in Central American hotels and restaurants is by no means insignificant. Also significant is the elimination of all tariffs on U.S. beef by a date certain, which in this case is 15 years.

Likewise, NCBA is pleased with the market access provisions that were negotiated for U.S. beef in the U.S.-Dominican Republic FTA. The addition of the Dominican Republic to CAFTA increases export opportunities for U.S. beef producers. The Dominican Republic is an important market as there is a growing tourism industry which has the ability to buy high quality U.S. beef. High quality U.S. beef (Prime and Choice) and beef trimmings are subject to a tariff rate quota (TRQ). With the TRQ, the U.S. gains some immediate duty-free access that grows over time with all tariffs eventually phasing out to zero. All other product tariffs go to zero during the 15-year transition period of the agreement. NCBA looks forward to the Administration moving these two agreements forward at the same time.

We applaud our negotiators for their efforts and NCBA supports the CAFTA and Dominican Republic agreements. As has been the case for many years, we will continue to work with Central American beef producers to protect our herds against foreign animal diseases.

**U.S.-Morocco FTA**

U.S. beef producers are very supportive of the beef, sanitary/veterinary and tariff-rate quota (TRQ) provisions within the U.S.-Morocco FTA. This agreement will allow, for the first time, market access for "high-quality" (Prime & Choice) U.S. product and variety meats to enter the growing Moroccan tourism industry.

By targeting this high-end hotel and restaurant portion of the market, U.S. beef producers will be supporting the efforts of the Moroccan Government to enhance and expand the Moroccan tourism industry. Therefore, the beef provisions within the FTA will benefit both Morocco as well as the United States. U.S. exporters, through the U.S. Meat Export Federation, will begin to assist Moroccan importers and this targeted sector to understand the quality and food safety attributes of U.S. beef.

The U.S. beef industry is especially pleased by the ability of either party to review the operations of the import licensing regime. This provides a mechanism to avoid any non-tariff trade barriers that licensing structures have caused in other markets. This same principal holds with regard to the FTA language on TRQ administration and the establishment of the Sanitary/Phytosanitary Joint Committee.

**Russia's WTO Accession Agreement**

NCBA is very pleased with Russia's WTO accession package that provides unrestricted access for U.S. variety meats and "high quality" (Prime & Choice) beef. This agreement is also significant in that the TRQ for all other fresh/chilled and frozen beef established in this agreement provides an additional level of access equal to four percent of Russia beef imports.

Russia is the largest importer of U.S. beef liver and it is critical that we re-open this market for U.S. beef exports as soon as possible. Russia is one of the fastest growing markets for beef variety meats in the world and the TRQ on fresh/chilled and frozen beef is certainly large enough to provide for substantial growth in U.S. market share through the transition or implementation period that ends in 2009. Russia imported approximately $50 million in beef and variety meats from the U.S. in 2002. NCBA estimates that if the U.S. filled its TRQ for fresh/frozen beef at the end of the implementation period and beef variety meat exports to Russia grew by 25 percent over the next six years, U.S. beef/variety meat trade with Russia would double to $100 million by 2009.

**China**

While currently banned due to the BSE situation, U.S. beef exports to China experienced significant growth from 2001 to 2002 and this was in no small part due to China's WTO Accession agreement that put the tariff on beef at 12 percent. China was one of the few countries were the value of U.S. beef exports did not grow in 2003 and this was mainly because China pegs its currency to the U.S. dollar meaning that as U.S. beef prices increased, our product simply priced itself out of the marketplace. We expect that every effort is being made to reopen this market as soon as possible based upon sound science.

**<u>Future Agreements</u>**

**U.S.-Thailand FTA**

Thailand's current 80 percent tariff on all beef imports is a huge impediment toward beef consumption for this country of 64 million people. NCBA is excited about the opportunities this market presents, assuming that our negotiators are successful in obtaining an agreement that is similar in structure to the CAFTA.

**U.S.-Andean FTA**

The U.S. - Andean FTA also presents interesting possibilities for U.S. beef producers. We view this as a logical next step following the Chile, CAFTA, and Dominican Republic agreements. We look forward to gaining additional access, especially in Colombia and Peru, where trade currently exists. All the Andean countries are developing markets for U.S. beef exports with much potential for growth. Opportunities exist for high-quality U.S. beef to supply the hotel and restaurant industry, as well as beef variety meats, especially in Colombia and Peru. Two issues which must be established in this agreement are system-wide plant inspections and a commitment to continue to protect against foreign animal diseases.

**U.S.-Panama FTA**

Panama is the second largest beef producing nation in Central America. However, the demand created by their growing tourism industry has not been satisfied by current domestic production. There is an opportunity for high-quality U.S. beef to supply the upscale hotels and restaurants as well as opportunities for beef variety meats in supermarkets. Again, system-wide plant inspections must be addressed during the negotiations. Panama's efforts have played a key role in eradicating Foot and Mouth Disease and other foreign animal diseases from North and Central America. We look forward to their continuing to work with their government and livestock producers to protect our herds' health.

**SUMMARY**

U.S. grain-fed beef has a unique place in the global food economy and U.S. beef producers know, as a result of our investments in technology and science-based animal health and inspection systems, that we produce the highest-quality, safest beef in the world. The goal of U.S. agricultural trade policy should be to make our product as competitive as possible in the world market.

NCBA's top priority is reopening the remainder of our export markets, which, as we stated earlier, are worth about $15/cwt in the price of a fed steer. We have recovered about $5/cwt but we still have $10/cwt to go. We must also insist on the complete harmonization of BSE regulations in North America to maintain credibility with our trading partners as we ask them to reestablish trade.

While it is an economic fact that lower tariffs benefit the importing country as well as exporting nations, we do not believe that the playing field is level. As such, NCBA will not support increased access to the U.S. beef market until meaningful access and tariff reduction is achieved in other major beef importing countries. Because several South American countries are major beef exporters and many major beef importers are in Asia and Europe, this balanced objective can only be achieved through comprehensive multi-lateral WTO negotiations.

Ours is a progressive and unsubsidized industry and we staunchly believe that we can compete very aggressively in the world marketplace with our product. We will continue to do so as high quality beef production is one of this nation's most competitive products. U.S. beef producers know that our future and that of our families depends on the viability and growth of our industry. The greatest opportunity for such growth hinges on our ability to market our safe, wholesome high quality beef around the world.

NCBA applauds our excellent team of trade negotiators for their efforts to date and we look forward to working with this committee as we put in place agreements today that set the stage for U.S. beef producers' future success.

# 2003 Beef and Beef Variety Meat Exports

*March/April 2004*

**Summary**

US beef and beef variety meat exports during January-December 2003 increased 3.45 percent in volume and 20.54 percent in value compared to exports during the same time in 2002.

**Background**

| U.S. Beef Exports to Primary Markets: January - December 2002 vs. 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Volume (Thousand Metric Tons)** | | | | | **Value (Million Dollars)** | | |
| **Beef** | | | | | | | |
| | **2002** | **2003** | **% Change** | | **2002** | **2003** | **% Change** |
| Japan | 251.89 | 298.52 | 18.51 | | 843.02 | 1,169.42 | 38.72 |
| Mexico | 206.77 | 193.04 | -6.64 | | 595.69 | 606.43 | 1.80 |
| S. Korea | 212.77 | 213.45 | 0.32 | | 609.74 | 750.50 | 23.09 |
| Canada | 83.83 | 80.89 | -3.50 | | 286.28 | 320.70 | 12.02 |
| Egypt | 6.04 | 7.63 | 26.34 | | 11.51 | 10.54 | -8.45 |
| Russian Fed. | 5.69 | 3.54 | -37.82 | | 14.54 | 8.74 | -39.90 |
| HK/China | 25.14 | 18.47 | -26.54 | | 72.10 | 77.95 | 8.11 |
| Taiwan | 14.04 | 16.33 | 16.35 | | 49.77 | 70.57 | 41.79 |
| EU | 1.61 | 1.40 | -13.07 | | 9.12 | 9.66 | 5.96 |
| All U.S. | 828.67 | 859.76 | 3.75 | | 2,585.37 | 3,150.23 | 21.85 |
| **Variety Meats** | | | | | | | |
| | **2002** | **2003** | **% Change** | | **2002** | **2003** | **% Change** |
| Japan | 80.32 | 77.48 | -3.53 | | 185.02 | 224.66 | 21.42 |
| Mexico | 143.23 | 142.79 | -0.31 | | 258.98 | 270.61 | 4.49 |
| S. Korea | 25.23 | 33.51 | 32.83 | | 38.60 | 65.26 | 69.07 |
| Canada | 13.85 | 10.88 | -21.44 | | 12.05 | 10.10 | -16.19 |
| Russian Fed. | 65.67 | 60.25 | -8.26 | | 44.93 | 44.59 | -0.77 |
| Egypt | 21.16 | 23.29 | 10.09 | | 14.48 | 19.38 | 33.84 |
| HK/China | 14.65 | 21.86 | 49.26 | | 30.26 | 41.46 | 37.03 |
| Taiwan | 4.58 | 2.89 | -36.97 | | 6.42 | 5.93 | -7.61 |
| EU | 4.63 | 8.53 | 84.24 | | 2.12 | 3.24 | 53.04 |
| All U.S. | 405.11 | 416.70 | 2.86 | | 618.52 | 711.88 | 15.09 |
| **Beef + Variety Meats** | | | | | | | |
| | **2002** | **2003** | **% Change** | | **2002** | **2003** | **% Change** |
| Japan | 332.20 | 375.99 | 13.18 | | 1,028.05 | 1,394.08 | 35.61 |
| Mexico | 349.99 | 335.83 | -4.05 | | 854.67 | 877.04 | 2.62 |
| S. Korea | 238.00 | 246.96 | 3.76 | | 648.34 | 815.76 | 25.82 |
| Canada | 97.67 | 91.77 | -6.04 | | 298.33 | 330.80 | 10.88 |
| Egypt | 27.19 | 30.92 | 13.70 | | 25.99 | 29.92 | 15.11 |
| Russia Fed. | 71.36 | 63.79 | -10.61 | | 59.47 | 53.33 | -10.33 |
| HK/China | 39.79 | 40.33 | 1.36 | | 102.36 | 119.41 | 16.66 |
| Taiwan | 18.62 | 19.22 | 3.23 | | 56.19 | 76.50 | 36.15 |
| EU | 6.23 | 9.92 | 59.16 | | 11.24 | 12.90 | 14.83 |
| All U.S. | 1233.78 | 1,276.46 | 3.46 | | 3,203.89 | 3,862.11 | 20.54 |
| Note: % Change is change from 2002 in percent, i.e., beef volume exported to Japan in 2002 increased 18.51 percent; beef volume exported to Mexico decreased 6.64 percent, etc. | | | | | | | |
| SOURCE: USDA/FAS | | | | | | | |
| **Note: To convert to million pounds multiply thousand metric tons by 2.2** | | | | | | | |

U.S. beef exports during 2003 totaled 1.276 million metric tons valued at almost $3.9 billion. Traditional primary export markets Japan, Mexico, the Republic of South Korea, and Canada accounted for nearly 83 percent of export tonnage and 88 percent of the export value. Japan regained its position as the top export market for beef and beef variety meats on both a volume and value basis in 2003. The value of beef and beef variety meat exports to Mexico increased in 2003 but faced a slight decline on a volume basis. South Korea is an excellent market for U.S. beef variety meats. In 2003, the U.S. exported 33 percent more beef variety meats on a volume basis and 69% more on a value basis to South Korea than in 2002. Exports to Canada were less in 2003 than 2002 only on a volume basis, mostly because of the decline in the value of the U.S. dollar and a waning demand for the U.S. product in Canada following the discovery of their case of BSE on May 20, 2003.

**Key Points**

- Beef exports are a key component of total beef demand.
- The NCBA Policy Division is aggressively working to re-open lost export markets due to the discovery of BSE in the U.S. on December 23, 2003, through the Doha Round of negotiations at the WTO, and through various other ongoing trade negotiations.

# 2003 Beef and Beef Variety Meat Imports, Tariff Rate Quotas

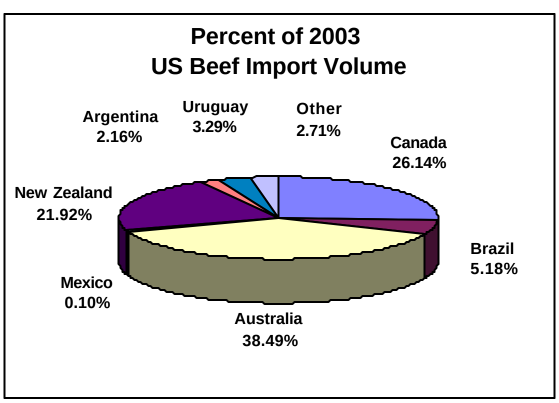
*March/April 2004*

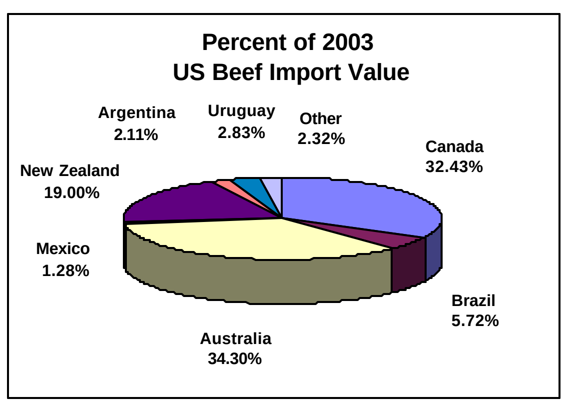

**Summary**

US imports of beef and beef variety meats decreased 8.55 percent in tonnage and 4.52 percent in value during January-December 2003 compared to imports in 2002. Major suppliers continue to be Australia, Canada, and New Zealand with those three countries accounting for approximately 86 percent of the beef tonnage and value imported by the US. Australia by-passed Canada in 2001 as the largest supplier of US beef imports, filling its World Trade Organization (WTO) most favored nation (MFN) tariff rate quota (TRQ) for the first time during the week of December 5, 2001. In 2003, Australia continues to be the largest source of U.S. imports at 34.3 percent of the volume and 38.3 percent of the value of total imports.


## Background

| Beef Imports from Primary Suppliers: January - December 2002 vs. 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Volume (Thousand Metric Tons) | | | | | Value (Million Dollars) | | |
| | | | | | | | |
| | 2002 | 2003 | % Change | | 2002 | 2003 | % Change |
| Canada | 389.17 | 255.77 | -34.28 | | 1,114.61 | 850.83 | -23.67 |
| Australia | 379.04 | 376.55 | -0.66 | | 883.95 | 899.91 | 1.81 |
| New Zealand | 201.14 | 214.49 | 6.64 | | 472.01 | 498.58 | 5.63 |
| Brazil | 49.71 | 50.72 | 2.03 | | 128.68 | 149.98 | 16.55 |
| Argentina | 20.70 | 21.10 | 1.93 | | 55.70 | 55.45 | -0.45 |
| Uruguay | 3.44 | 32.16 | 834.77 | | 8.57 | 74.31 | 766.97 |
| Mexico | 6.03 | 6.71 | 11.31 | | 24.00 | 33.61 | 40.08 |
| Other | 23.08 | 26.51 | 14.86 | | 55.20 | 60.87 | 10.26 |
| **Total US Beef Imports** | | | | | | | |
| | 1072.31 | 984.00 | -8.24 | | 2,742.73 | 2,623.53 | -4.35 |
| Variety Meats | 33.45 | 27.22 | -18.61 | | 85.21 | 76.47 | -10.26 |
| **Total US Imports: Beef + Variety Meats** | | | | | | | |
| | 1105.76 | 1011.23 | -8.55 | | 2,827.93 | 2,700.00 | -4.52 |



**Canada:** On May 20, 2003 the Canadian Food Inspection Agency reported a case of BSE in a beef cow in northern Alberta, Canada. USDA-APHIS "prohibit[ed]…the importation of ruminants that have been in Canada and the importation of meat, meat products, and certain other products and byproducts of ruminants that have been in Canada," according to an interim rule that was published in the *Federal Register* on May 29, 2003 and was retroactively effective May 20, 2003. USDA announced the reopening of the border to boxed boneless beef from animals less than 30 months of age to be exported to the U.S. under permit in August 2003. The first shipments of Canadian beef crossed the US-Canada border on September 11, 2003.

USDA-APHIS published a proposed rule regarding the process to import live cattle from Canada in the *Federal Register* on November 4, 2003. Comments were due to USDA-APHIS on January 5, 2004. With the discovery of one cow in Washington state on December 23, 2003 with BSE, USDA-APHIS closed the comment period as scheduled on January 5th. USDA-APHIS reopened the comment period on the proposed rule to amend the regulations regarding the importation of animals and animal products from countries that have had isolated cases of BSE on March 8, 2004. Comments are due by April 7, 2004. NCBA's Policy Division is planning to submit comments.

**Imports Subject to TRQs:**

US beef imports of fresh and frozen product subject to tariff rate quotas (not including cooked, canned and processed beef that is reported in total beef imports) as well as imports of fresh and frozen beef from Canada and Mexico are reported weekly by the Department of Commerce. US beef imports from Australia, New Zealand, Argentina, Uruguay, and "all others" are subject to tariff rate quotas as negotiated in the WTO Uruguay Round and shown in the table below. Under this WTO MFN TRQ, suppliers must pay a 4.4 cents/kg – almost nothing – in quota tariff. Once the WTO MFN TRQ is reached suppliers may continue to ship, but must pay a U.S. tariff of 26.4 percent.

During January 1 through December 31, 2003 US beef imports from primary suppliers subject to the WTO MFN TRQ decreased 8.32 percent compared to 2002.

| **Beef Imports Subject to TRQ from Primary Suppliers: January 1 - December 31, 2002 vs. 2003** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Volume (Thousand Metric Tons)** | | | | | | | |
| | **2002** | **2003** | **% Change** | | **Tariff Rate Quota** | **% Fill '02** | **% Fill '03** |
| Canada | 383.52 | 252.24 | -34.23 | | 0.00 | NA | NA |
| Australia | 370.37 | 373.06 | 0.73 | | 378.214 | 97.93 | 98.64 |
| New Zealand | 186.32 | 210.64 | 13.05 | | 213.402 | 87.31 | 98.71 |
| Argentina | 0.00 | 0.00 | 0.00 | | 20.00 | 0.00 | 0.00 |
| Uruguay | 0.00 | 18.99 | | | 20.00 | 0.00 | 94.97 |
| Mexico | 3.56 | 4.36 | 22.41 | | 0.00 | NA | NA |
| "Others" | 22.12 | 26.21 | 18.52 | | 64.805 | 34.13 | 40.45 |
| **US Beef Imports from TRQ Suppliers** | | | | | | | |
| | 965.89 | 885.51 | -8.32 | | | | |

Historically, exporting countries have rarely filled their beef WTO MFN TRQs, so over quota tariffs have had no effect. Prior to 1998, none of the countries that export beef to the U.S. had filled their TRQs. Both Argentina and Uruguay filled their WTO MFN TRQs in 1999, but neither country has filled since that time. New Zealand filled its WTO MFN TRQ in 2000 but did not repeat in 2001. Australia filled their WTO MFN TRQ for the first time in 2001. Neither Australia nor New Zealand filled their respective WTO MFN TRQs in 2002, although Australia did come close filling at 97.93 percent.

The 26.4 percent over quota tariff has been effective in stopping additional imports in years when countries have filled their WTO MFN TRQ. Even with currencies of most exporting countries depreciating against the U.S. dollar in recent years, the tariff has resulted in product being placed in bonded storage until the next year's WTO MFN TRQ became effective. Rarely if ever has product continued to be imported subject to the 26.4 percent duty once a country has filled the WTO MFN TRQ.

**Australia:** The US imports mostly lean beef for manufacturing from Australia which is blended with US trimmings to create quick service hamburgers. Australia filled its WTO MFN TRQ for fresh/chilled and frozen beef for the first time on December 5, 2001, but has not filled it since. US beef imports from Australia increased .73 percent during January 1 through December 31, 2003 compared to the same time in 2002. When Australia filled its WTO MEF TRQ in late 2001, product was placed in bonded storage during December and released after January 1 causing front-loading of imports from Australia in 2002. Importers were also likely looking to Australia to replace product that was imported from Uruguay during 2000 and Australia shipped more product to the U.S. as markets in Japan, Korea and other Asian countries declined in 2002.

In early October 2002, the Australian Government announced the implementation of a tariff rate quota management system that controls the amount of product that each exporter can send to the United States to manage the remaining allocated WTO MFN TRQ. Australia filled 97.93 percent of its WTO MFN TRQ in 2002, and filled 98.64 percent now in 2003. Australia has experienced a multiple year drought, and record high US retail beef prices made the US a prime market for Australian beef industry to target in 2003.

The U.S. – Australia FTA negotiations concluded negotiations in Washington, DC on February 8, 2004. The draft text of the agreement is available at www.ustr.gov. The agreement does allow for increased Australian access to the US market under a separate TRQ for manufacturing beef (US-Aus FTA TRQ). Please seethe article "US-Australia FTA…" in the March/April 2004 publication if Issue Updates for more details about the agreement and what it means for the US beef and cattle industry.

**New Zealand:** The US imports mostly lean beef from New Zealand as well. New Zealand filled its quota in 2000, but did not quite fill during 2001. During 2000, New Zealand filled the WTO MFN TRQ and placed product in bonded storage that counted against US beef imports during 2001. Even with this product coming out of storage, US beef imports from New Zealand subject to the WTO MFN TRQ declined 3.1 percent during all of 2001 and New Zealand did not fill the WTO MFN TRQ in 2001. New Zealand did not fill its TRQ in 2002, but during January 1 through December 31, 2003 US beef imports from New Zealand increased 13.05 percent from 2002, filling 98.71 percent of the WTO MFN TRQ.

**Argentina:** During 1999, Argentina filled its WTO MFN TRQ. Argentina voluntarily suspended exports of fresh and frozen beef to the US, Canada and Mexico March 13, 2000 after a Foot and Mouth Disease (FMD) outbreak was discovered. The Office of International Epizootics (OIE) –the world organization for animal health – recognized a zone of Argentina, South of Patagonia, as free from FMD without vaccination for a short period of time during 2003. An application to recognize a zone of Argentina as FMD-free with vaccination was reviewed by the

OIE's Foot and Mouth Disease and Other Epizootics Commission on May 22, 2003. The Commission decided that the zone could recover its status as of July 7, 2003 if Argentina is able to provide the necessary supporting documentation that there has been no change in epidemiological status of the country between May 22 and July 7, 2003. Argentina did so, and on July 7, 2003, the OIE reaffirmed their previous decision and restored the zone of Argentina situated north of the 42nd parallel as FMD-free with vaccination. However, FMD was discovered in the Salta province of Argentina in late August/early September 2003. On September 4, 2003 the OIE suspended the status of "FMD free zone with vaccination" of the zone of Argentina situated north of the 42° parallel. At this time, Argentina is not eligible to ship fresh/chilled or frozen beef to the US. There were no US beef imports of fresh or frozen beef from Argentina during January 1 through December 31, 2003.

Tariff rate quotas of 20,000 metric tons generally limit the exports of fresh and frozen beef to the US from Argentina and Uruguay, even when both countries are FMD-free. Due to the fact that Argentina has not achieved FMD-free status, beef imported from Argentina must be cooked, canned or preserved. Cooked and processed beef may be shipped without quota restrictions, and is reflected in the chart titled "Beef Imports from Primary Suppliers."

**Uruguay:** During 1999, Uruguay filled its WTO MFN TRQ. Uruguay also voluntarily suspended exports of fresh and frozen beef after cases of FMD were reported near the border with Argentina in March 2001. Since Uruguay did not experience an outbreak of FMD during the subsequent year, they requested USDA-APHIS reconsider the export of fresh (chilled or frozen) beef to the U.S. from Uruguay.

Wythe Willey, then NCBA President, met with then Uruguayan Minister of Livestock, Agriculture, and Fisheries, Gonzalo Gonzales on September 9, 2002 and was invited by the Rural Association of Uruguay to visit the country to learn more about their livestock industry and country. The NCBA Policy Division worked with USDA to arrange a fact-finding trip for U.S. cattle producers to evaluate processes that Uruguay has in place to prevent another outbreak of FMD. NCBA Policy Division staff traveled to Uruguay March 26-30, 2003, to evaluate Uruguay's current program. This information was the basis for formal comments to USDA on the status of Uruguay's FMD eradication program submitted on April 24, 2003.

USDA-APHIS published a request for comment in the Federal Register on Feb. 10, 2003 and comments were to be submitted by April 11, 2003. After conducting a risk assessment, site visit and comment period, USDA-APHIS amended the U.S. regulation to allow for the importation of fresh (chilled or frozen) beef from Uruguay as of May 29, 2003. The Final Rule can be found in the May 29, 2003 edition of the *Federal Register*, Docket No. 02-109-3. The OIE FMD and Other Epizootics Commission also declared Uruguay as FMD free with vaccination on May 22, 2003. Trade under the WTO MFN TRQ has resumed – between the end of May 2003 and the end of the year, Uruguay shipped 18.99 thousand metric tons, filling 94.97 percent of their 20 thousand metric ton WTO MFN TRQ.

**Brazil:** Due to the fact that Brazil has not achieved FMD-free status, beef imported from that country must be cooked, canned or preserved. Cooked and processed beef may be shipped without quota restrictions, and is reflected in the chart titled "Beef Imports from Primary Suppliers." Brazil's initiative to attain FMD-free status suffered a setback with an FMD outbreak in November 2000. A NAFTA evaluation team completed an evaluation of the BSE status in Brazil during February 2001 and determined that there is not a BSE risk in Brazil. Brazil has applied to be regionalized FMD-free status in several Southern states. When Brazil is eligible to ship fresh/chilled and frozen product to the US, they ship under the "Others" category.

### Key Points

- The NCBA Policy Division and the US beef industry will not support trade agreements that provide only one-way increased access to US markets as some opponents of additional trade agreements have suggested.
- The NCBA Policy Division will continue to provide information that accurately reflects NCBA policy and will counter erroneous information designed to heighten producer fears about trade and trade agreements.
- The NCBA Policy Division will continue to monitor and report cattle and beef trade to the industry and assure that trade flows are legal under existing trade agreements and laws.
- The NCBA Policy Division will work to assure that all requirements are met and that verification methods are in place before access to the US beef market is granted.

**US – Australia FTA Summary for Beef**
***March/April 2004***

U.S. and Australian negotiators reached and agreement on the terms of a free trade agreement (FTA) between the two nations in early February 2004. The Bush Administration has notified Congress and the timeline for signing the agreement and Congressional approval are now on track to be completed before the August recess.

The U.S. cattle industry opposed any increase in the Australian tariff rate quota for beef, and/or a reduction of tariffs, during the U.S.-Australia FTA negotiations without substantial gains in market access for U.S. beef and beef products in the other major importing beef nations of the world, such as Japan, South Korea, and the European Union. Because Australia is a major beef exporter and many major beef importers are in Asia and Europe, the cattle industry's position was that its objective could only be achieved through comprehensive multi-lateral WTO negotiations -- not regional or bilateral negotiations.

Background

- Currently, Australia is allowed a 378,214 metric ton (mt) tariff rate quota (TRQ) for access into the U.S. market each year, as negotiated during the Uruguay Round Agreement of the Word Trade Organization. The in-quota duty is virtually zero, at 4.4 cents/kg or $44/mt. Should Australia ship over this amount, they must pay a 26.4% duty on that product. Australia filled their TRQ for the first time in 2001. Historically, exporting countries have rarely filled their beef TRQs, so tariffs above the TRQ have had no effect. Prior to 1998, none of the countries that export beef to the U.S. had filled their TRQs.
- Australia filled its quota for the first time ever during the week of December 5, 2001. Product was placed in bonded storage during December 2001 and released after January 1, 2002 causing front-loading of imports from Australia during 2002. In early October 2002, the Australian Government announced the implementation of a tariff rate quota management system, which controls the amount of product that each exporter can send to the United States to manage the remaining allocated TRQ. However, cattle slaughter has markedly declined in Australia due to drought-reduced supplies.
- Australia did not fill its TRQ in 2002. Therefore, NCBA does not believe that increasing Australia's access to the US beef market is warranted.
- Due to what is being described as the worst drought in its history, Australia will not fill its TRQ in 2003.
- Australia's position, pre-negotiation, called for a 20 percent increase in its access to the US market and the Cattle Council of Australia reaffirmed this stance: "removal of trade barriers to Australian beef must be at the heart of the current FTA negotiations with the US – there can be no FTA with the US without this."
- Below are two charts: "Annual Total U.S. Beef Imports from Australia" shows the amount of all beef imports from Australia on a volume and value basis over the last 8 years. "Beef Imports Subject to TRQ from Australia" the volume of fresh and frozen beef Australia shipped under the TRQ and the percent fill for the last three years.

| Annual Total U.S. Beef Imports from Australia | | | |
|---|---|---|---|
| | | | |
| | Volume | | Value |
| | (Thousand Metric Tons) | | (Million Dollars) |
| | | | |
| **2003** | 376.55 | | 899.91 |
| **2002** | 379.04 | | 883.95 |
| **2001** | 384.18 | | 850.34 |
| **2000** | 342.08 | | 670.16 |
| **1999** | 288.74 | | 505.97 |
| **1998** | 285.18 | | 467.63 |
| **1997** | 213.25 | | 354.19 |
| **1996** | 181.73 | | 213.25 |

| Beef Imports Subject to TRO from Australia | | | | |
|---|---|---|---|---|
| Australia WTO TRQ: 378,214mt | | | | |
| | | | | |
| **Volume (Thousand Metric Tons)** | | | | |
| **2001** | **2002** | **2003** | | |
| 378.21 | 370.37 | 373.06 | | |
| | | | | |
| **% Fill 01** | **% Fill 02** | **% Fill 03** | | |
| 100.00 | 97.93 | 98.64 | | |
| | | | | |

**THE AGREEMENT**

The U.S. – Australia FTA grants Australia market access in beef that is in addition to, and separate from, the WTO or "Most Favored Nation" (MFN) TRQ. Below is a table that describes the beef market access and safeguard aspects of the FTA agreement:

| WTO TRQ level (MFN) | FTA Year | FTA In-Quota Tariff | FTA Quota | Out of Quota Tariff | If Quantity Safe-Guard >110% | Then 75% of MFN tariff = | Price based safe-guard |
|---|---|---|---|---|---|---|---|
| 378,214 (mt) | 1 | 0 | 0 (mt) | 26.4 | | | |
| 378,214 | 2 | 0 | 15,000 | 26.4 | | | |
| 378,214 | 3 | 0 | 20,000 | 26.4 | | | |
| 378,214 | 4 | 0 | 20,000 | 26.4 | | | |
| 378,214 | 5 | 0 | 25,000 | 26.4 | | | |
| 378,214 | 6 | 0 | 25,000 | 26.4 | | | |
| 378,214 | 7 | 0 | 30,000 | 26.4 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 378,214 | 8 | 0 | 30,000 | 26.4 | | | |
| 378,214 | 9 | 0 | 35,000 | 24.6 | 38,500 (mt) | 26.0% | |
| 378,214 | 10 | 0 | 35,000 | 22.9 | 38,500 | 25.5 | |
| 378,214 | 11 | 0 | 40,000 | 21.1 | 44,000 | 25.1 | |
| 378,214 | 12 | 0 | 40,000 | 19.4 | 44,000 | 24.7 | |
| 378,214 | 13 | 0 | 45,000 | 17.6 | 49,500 | 24.2 | |
| 378,214 | 14 | 0 | 45,000 | 14.1 | 49,500 | 22.0 | |
| 378,214 | 15 | 0 | 50,000 | 10.6 | 55,000 | 22.5 | |
| 378,214 | 16 | 0 | 55,000 | 7.0 | 60,500 | 21.6 | |
| 378,214 | 17 | 0 | 60,000 | 3.5 | 66,000 | 20.7 | |
| 378,214 | 18 | 0 | 70,000 | 0 | 77,000 | 19.8 | |
| 378,214 | 19 | 0 | unlimited (0.6% of 70K growth forward) | N/A | N/A | N/A | If <6.5% of 24-month avg light select then 17.2% |

Note: 1 metric ton = 2204.6 lbs.

Under the terms of this agreement:

- If U.S. exports do not exceed 2003 levels during the first two years of the agreement, the increase in market access for year 2 as illustrated in the table above would not go into effect.
- The current 4.4 cent/kg ($44/mt) in-quota tariff would go to zero immediately.
- The out of quota tariff will not change until year 9 of the agreement. It will be reduced by one-third from years 9-13 and by the remaining two-thirds between years 14-18.
- Australia will be permitted to fill the increase in the quota level granted via the FTA above the MFN (378,214 mt) level with only “manufacturing” beef (as opposed to whole muscle cuts). However, Australia will be permitted to export simultaneously under either the MFN or FTA quota. (The MFN quota doesn’t have to be filled first.)
- Beginning in year 9 (the first year of the out of quota tariff reduction), a quantity-based safeguard of 75% of the difference between the MFN (26.4%) and out of the FTA quota tariff will apply when imports exceed 110% of the quota. This quantity-based safeguard will end at the end of the transition period (the end of year 18).
- Beginning in year 19, a permanent, price-based safeguard of 65% of the MFN (26.4%) tariff, or a tariff of 17.2% will apply during a quarter if the price of these imports dips more than 6.5% below the 24-month moving average of the wholesale light select carcass price for two months of the previous quarter. The rules are slightly different during the fourth quarter. The safeguard may be maintained during the remainder of the fourth quarter of the calendar year, if the monthly average index price falls below the trigger price in any month of the fourth quarter or in the month immediately preceding the fourth quarter.
- The permanent price-based safeguard will only apply, however, once Australian exports exceed a set level. For example in year 19 (MFN + 70,000 mt + 0.6% of 70,000 mt <or> 378,214 mt + 70,000 + 420 mt = 448,634 mt) a 17.2% tariff would apply on all Australia exports to the U.S. that exceed 448,634 mt.

- US exports to Australia will be completely duty free and without the former 30-day aging rule on day one of the agreement. US beef and beef variety meat exports to Australia in 2003 were 183.5 metric tons.
- Australian live cattle exports to the U.S. will be determined based on Australian compliance with USDA-APHIS regulations, as is the case today. Any future or potential shipments would no longer be subject to MFN tariff rates of one cent per kg (the tariff on a 400 lb. calf would be $1.82) but rather an ad velorum duty.
- US exports to Australia will be completely duty free and without any SPS restriction on day one of the agreement, however, the Australian and New Zealand markets are relatively small and offer little market growth for our exports compared to the Asian and European markets. US beef and beef variety meat exports to Australia in 2003 were 183.5 metric tons.
- As part of the agreement, Australia has committed to working with the U.S. to amend the international standards on BSE.

POLICY CONSIDERATIONS:

- In a July 17, 2003 letter to U.S. Trade Representative Robert Zoellick, NCBA's Policy Division reiterated our position that the U.S. cattle industry vehemently opposes any increase in the Australian tariff rate quota for beef, and/or a reduction of tariffs, during the US-Australia FTA negotiations without substantial gains in market access for U.S. beef and beef products in the other major importing beef nations of the world, such as Japan, South Korea, and the European Union. Because Australia is a major beef exporter and many major beef importers are in Asia and Europe, this objective can only be achieved through comprehensive multi-lateral WTO negotiations -- not regional or bilateral negotiations.
- The letter also pointed to another issue that continues to be of concern for U.S. cattlemen: the Jones Act. Under this Act, Hawaiian cattlemen cannot directly ship live feeder cattle to the continental United States at a competitive rate on ships under U.S. flag, and instead must transship them through Canada. As part of the US-Australia FTA negotiations the Australians will obtain direct access for feeder cattle into the United States. Such access would continue to put those Hawaiian cattlemen at an unacceptable disadvantage.

SUMMARY

Once it became clear that these negotiations were going forward, NCBA had little choice other than to roll up our sleeves and work with the team of U.S. trade negotiators to get the best agreement possible knowing full-well that we would be negotiating from a totally defensive position.

Throughout the Australia FTA negotiating process, the assumption was made that there will be a new WTO Agreement within the next 10 years that will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef. It is also anticipated that any new WTO agreement would include an expansion in the size of tariff-rate quotas (TRQ) around the world including the U.S. beef TRQ. (The current (WTO) Harbinson text says that all TRQs would be expanded to 10 percent of consumption which would make the U.S. beef import TRQ roughly 1,000,000 tons versus the current 378,214 tons—subject to negotiation.)

The U.S. cattle industry's primary objective in these negotiations was to prevent any potential negative impact on the U.S. beef industry caused by this FTA before the U.S. beef industry would have an opportunity to increase its ability to export beef via the WTO trade liberalization process. The expectation being that once this reduction in beef tariffs globally was in place, Australia would not have enough production to meet this global demand and still annually fill its US quota of which it has accomplished on only one occasion.

As the primary end-use for its 86-88 percent lean, Australian beef is a ground product for hamburger, only a minute amount of Australian beef exported to the United States is currently attempting to be marketed as a whole muscle cut. Current five-year industry estimates all concur in projecting a 1-2 percent annual growth in the demand for this (food service ground beef) product. ***If these estimates hold over the next decade, the size of Australia's TRQ should grow commensurate with the marketplace's demand for this product resulting in no net negative price effect on live U.S. utility cow prices during the next 10 years as a result of this FTA.***

If for some reason the demand for these lean beef imports stagnates, the FTA could give Australia a slight advantage over New Zealand via the elimination of the in-quota tariff. If not, a regression utility cow price model suggests that the agreement's 15,000 ton increase in Australia's beef TRQ to the United States would equate to a $0.0018/lb decrease in the live price of the U.S. utility cow market on an annual basis with the 40,000 tons in year 11 equating to $0.0049lb and the 70,000 ton in year 18 $0.0085/lb. Again, these price effects assume zero growth in the demand for food-service hamburger in the years ahead.

Overall, this agreement is unique in that significant market access (above expected growth in demand) is back-loaded until essentially year 15 of the agreement. The inclusion of a transitional quantity-based safeguard, and the permanent price-based safeguard at the end of the transition period, are critical components of this agreement.

The world beef market should benefit, rather than suffer, from this permanent, post-transitional price-based safeguard or "safety-net" mechanism that essentially provides a type of braking (not blocking) mechanism in the event of a U.S. or Australian beef market meltdown. While such an event seemed unlikely before December 23, 2003, we now know that such a provision is actually sensible trade policy given the quantity of trade involved.